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C O N F I D E N T I A L SECTION 01 OF 02 ISLAMABAD 001199

SENSITIVE
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SUBJECT: PM FINANCE ADVISOR ON ABSORPTIVE CAPACITY AND
MAKING BEST USE OF DONOR FUNDS

Classified By: Ambassador Anne W. Patterson for reasons 1.4 (b) and (d)

¶1. (SBU) Summary: In a meeting May 28 with the Ambassador, Shaukat Tarin, the Prime Minister's Advisor for Finance, said that, while he welcomed money coming through the budget, donors should direct their funding to the most effective and cost-efficient platforms for maximum impact. Tarin said the GOP intends to focus Tokyo donations on poverty alleviation, health and education, adding that donors could channel funds through government or nongovernmental organizations, at the federal or provincial level. Tarin shared the Ambassador's concern that development assistance from donors might be redirected to respond more immediately to Pakistan's growing IDP crisis, and agreed that reconstruction costs will dwarf those required for immediate humanitarian relief. Tarin agreed with the Ambassador's view that GOP IDP Coordinator Hina Rabbani Khar lacked sufficient staff to carry out detailed follow up, and suggested establishing a cell within the Economic Affairs Division to carry out assessments and donor coordination. Tarin said the GOP would decide whether to purchase new Boeing aircraft "within the next six months."
End Summary.

U.S. Assistance

¶2. (SBU) In a May 28 meeting, the Ambassador, USAID Director and Shaukat Tarin, the Prime Minister's Advisor for Finance, discussed possibilities for delivering the U.S. Tokyo pledge and other U.S. funds in the pipeline. The Ambassador told Tarin that the USG will consider additional support for reconstruction in the future budget and is seeking to keep current funding from being diverted to address the needs of internally displaced persons (IDPs). The U.S. plans to focus its development assistance on certain poor districts deemed most at risk for militancy; support integrated interventions driven by priority needs; and develop local in order to build confidence of local populations in government responsiveness. Some money might be set aside for modest cash transfers to the GOP, subject to assessments of adequate funds control, targeting, and likely impacts. These issues were still under discussion in Washington.

¶3. (C) The Ambassador noted that the USG has had negative experiences using cash transfers to the Ministries of Health and Education in the past. (Note: The Finance Ministry must provide local currency equivalent to the USD cash grant to the target ministry. The target ministry must then account to USAID for the use of the local currency on mutually agreed

priorities. In the past, Health and Education have failed to properly use the funds provided in this fashion. President Zardari has promised the Ambassador privately that the incompetent Health and Education Ministers would be transferred to less important ministries. End Note).

Absorptive Capacity) Use Whatever Works Best

¶4. (SBU) Tarin recognized Washington concerns about the GOP's capacity to absorb funding, noting that he had discussed this with Deputy Secretary Lew during their meeting in May and promised the Deputy Secretary an assessment of the issue. Tarin stressed his goal is to make the most effective use of any funds, whether it be through federal, provincial, or non-governmental implementers. The GOP intends to focus Tokyo donations on poverty alleviation, education and health, but Tarin's immediate interest is capturing, without double counting, all funding streams in the 2009-2010 budget being presented to the National Assembly June 13. Tarin welcomed any concrete information the U.S. could provide on the precise amount of budget support as soon as possible. The Ambassador agreed to meet Tarin to discuss in detail the various funding streams.

¶5. (SBU) While Tarin was clear that the GOP had no objection to the U.S. or other donors working directly with the provinces or through organizations other than the GOP, he warned against creating new vehicles to move funding, especially where the GOP was efficient. Balancing impact against delivery costs is key - higher delivery costs are

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acceptable if there is a commensurate boost in impact. Tarin cited the GOP's Higher Education Commission as an effective federal-level platform for education, and added that privately-run citizen foundations, which have already established a number of effective schools around the country, would be excellent platforms for secondary education at the provincial level.

¶6. (U) For poverty alleviation, Tarin recommended the USG investigate channeling funds through the Benazir Income Support Fund (BISP), the National Rural Support Program (NRSP), the privately-run Pakistan Poverty Alleviation Fund (PPF), and the joint USAID-GOP Competitiveness Support Fund (CSF). He noted that USAID and other donors are already working with CSF, NRSP and the PPF. Tarin promised to help the U.S. identify the most effective platforms in the health sector and raised the possibility of creating a high-powered steering committee to do an overall assessment of potential funding mechanisms.

IDP Reconstruction: A Major Expense

¶7. (U) Tarin noted that unless donors came up with funds to address Pakistan's growing IDP crisis, he would be forced to use money from the budget. He said that reconstruction costs for the 350,000 affected households would be "several billion dollars," on top of the substantial and mounting expense necessary to provide a \$312 cash payment to each IDP household, as well as health expenses for the 2.4 million people. The Ambassador said that the U.S. has already set aside money to help build up the police in the affected areas, as well as for the Frontier Corps. Tarin agreed that the police were not ready to take over after the army leaves, but warned that Interior Minister Rehman Malik needed to present a coherent plan that justified the money he was requesting, and urged the Embassy to deal with the Finance Ministry on budget issues. Tarin said he was meeting with Malik and FATA officials the week of June 1 to determine how the GOP could create capacity to increase spending immediately in FATA.

Donor Coordination Remains a Challenge

¶8. (SBU) Tarin and the Ambassador agreed that the current GOP focal point for IDPs, State Minister for Economic Affairs Hina Rabbani Khar, lacked sufficient staff to drill down on issues and to follow up with donors and GOP agencies alike. Tarin said he would direct Khar to hold weekly rather than twice monthly meetings with donors, would suggest the GOP establish a coordination cell at the Economic Affairs Division (EAD) to provide detailed analysis, and promised that he himself would become more involved until an effective system was in place. (Comment: this is not a solution to the chronic problem of donor coordination. End Comment.)

Boeing

¶9. (SBU) On PIA's possible purchase of Boeing aircraft, Tarin pointed out that Boeing was offering discounts of some 48 percent rather than the usual 38 percent. PIA needed to optimize its fleet with a mixture of short and long range planes, Tarin said, adding that PIA's aging 737s and 310s must be replaced. Tarin said that PIA, along with the railroads, steel mills and power distribution companies, were on his personal "hit list," and claimed that these companies lose some \$2.5 billion per year - equivalent to half the 2008-2009 development budget. Tarin said he told PIA that if the company broke even for two consecutive quarters, he would consider its request for new aircraft; despite inflation of over 20 percent, PIA's costs have remained flat and it is now breaking even. Tarin said the decision on new aircraft would be made within the next six months.

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